

FEDERATED
DEPARTMENT STORES, INC.

ANNUAL REPORT

FOR THE FISCAL YEAR ENDED
JANUARY 31, 1939

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FEDERATED DEPARTMENT STORES, INC.

OFFICERS AND DIRECTORS

JANUARY 31, 1939

LINCOLN FILENE, *Chairman of the Board*

EDWARD C. BLUM.....	<i>President</i>
SIMON LAZARUS.....	<i>Vice-President</i>
EDWARD J. FROST.....	<i>Treasurer</i>
JACOB J. KAPLAN.....	<i>Secretary</i>
HUGH GRANT STRAUS.....	<i>Asst. Secretary and Asst. Treasurer</i>

DIRECTORS

LINCOLN FILENE	FRED LAZARUS, JR.
EDWARD C. BLUM	SAMUEL J. BLOOMINGDALE
SIMON LAZARUS	JACOB J. KAPLAN
EDWARD J. FROST	WALTER N. ROTHSCHILD
LOUIS E. KIRSTEIN	PAUL M. MAZUR
HUGH GRANT STRAUS	MICHAEL SCHAAP

FEDERATED DEPARTMENT STORES, INC.

April 1, 1939.

TO THE STOCKHOLDERS OF FEDERATED DEPARTMENT STORES, INC.:

On behalf of the officers and directors of Federated Department Stores, Inc., I present the Annual Report for the fiscal year ended January 31, 1939.

The accompanying Consolidated Balance Sheet, Profit and Loss and Surplus statements have been prepared by Messrs. Touche, Niven & Co., and include the operations of the following companies controlled by your corporation:

Abraham & Straus, Inc.....	Brooklyn, New York
Bloomingdale Bros., Inc.....	New York, New York
The Continental Clothing Company.....	Boston, Massachusetts
(Subsidiary of Wm. Filene's Sons Company)	
Wm. Filene's Sons Company.....	Boston, Massachusetts
The F. and R. Lazarus and Company.....	Columbus, Ohio
The John Shillito Company.....	Cincinnati, Ohio
(Subsidiary of The F. and R. Lazarus and Company)	
R. H. White Company.....	Boston, Massachusetts
(Subsidiary of Wm. Filene's Sons Company)	

During the year The F. and R. Lazarus and Company and The John Shillito Company exercised their options to purchase real estate representing the greater part of their present store sites, previously held under lease. The store site of The F. and R. Lazarus and Company was acquired at a cost of \$3,250,000 (exclusive of net premiums paid in connection with exercising such option), while that of The John Shillito Company involved an expenditure of \$1,540,000. The funds for this purpose were obtained by issuing mortgage notes payable in the principal amounts of \$3,250,000 and \$1,540,000 by the respective companies. In addition, R. H. White Company purchased a portion of its store property, subject to a mortgage of \$511,000, for a cash consideration of \$251,000.

Consolidated net sales for the year ended January 31, 1939 totaled \$105,908,983, a decrease of 1.64% from the previous year.

Consolidated net profit for the year ended January 31, 1939 applicable to the shares of your corporation amounted to \$2,756,223 which is equivalent, after dividends of \$505,551 on the 4¼% convertible preferred stock, to \$2.45 per share on the 920,163 common shares outstanding on January 31, 1939. In the previous year consolidated net profit applicable to the shares of your corporation amounted to \$2,709,219 equivalent, after dividends of \$524,149 on the 4¼% convertible preferred stock, to \$2.37 per share on the same number of common shares outstanding on January 31, 1938.

Current assets at January 31, 1939 aggregated \$31,041,832, including \$6,414,924 cash and marketable securities, and current liabilities were \$4,440,731, resulting in a net working capital of \$26,601,101. The ratio of current assets to current liabilities was 6.99 to 1. The net working capital at January 31, 1938 was \$24,638,645.

Of the 4¼% convertible preferred stock of your company, 4,400 shares were repurchased during the year, leaving 117,650 shares outstanding at January 31, 1939.

Your corporation paid during the year, in addition to the regular dividends on the 4¼% convertible preferred stock, dividends of \$1.25 per share on the common stock.

LINCOLN FILENE,
Chairman of the Board.

A S S E T S

CURRENT ASSETS:

Cash on demand deposit and on hand.....
 United States, state and municipal securities—on the basis of cost or market, whichever is lower (quoted market \$1,343,478.13).....
 Customers' accounts and notes receivable:
 Regular retail, less reserves of \$292,868.85.....
 Instalment (the terms on a small portion of which extend beyond one year), less reserves of \$613,726.30.....
 Inventories:
 Merchandise on hand—on the basis of cost or market, whichever is lower, as determined by the retail inventory method.....
 Merchandise in transit—at cost.....
 Sundry debtors.....

OTHER ASSETS:

Notes secured by second mortgages on property used in operations—at cost to subsidiary company.....
 Real estate not used in operations—land at appraised value of \$105,000.00 to subsidiary company as of January 31, 1933, and land and buildings at cost to subsidiary companies, less depreciation of \$171,022.20.....
 Loans to directors and employees.....
 New York World's Fair debentures—at cost.....
 Miscellaneous investments, advances and deposits—joint service organizations, reciprocal and mutual insurance companies and others—at cost or less to subsidiary companies.....

FIXED ASSETS:

Land, buildings and building equipment substantially all on owned land (See Note 1):
 Land—at cost or less to subsidiary companies.....
 Buildings and building equipment—at cost to subsidiary companies, less depreciation of \$1,537,247.19 and less write-down of \$96,170.98 as to certain of these assets of a subsidiary company.....
 Buildings and building equipment on leased land and improvements to leased properties—at cost to subsidiary companies, less depreciation of \$4,010,466.01 and less write-down of \$1,259,667.97 as to certain of these assets of certain subsidiary companies.....
 Preliminary expenditures in connection with new service building (See Note 2).....
 Leasehold—at cost to subsidiary company, less amortization of \$5,797.20.....
 Store fixtures and equipment—at cost to subsidiary companies, less depreciation of \$4,159,044.97 and less write-down of \$1,179,780.51 as to certain of these assets of certain subsidiary companies.....
 Delivery equipment—at cost to subsidiary companies, less depreciation of \$173,357.32.....

DEFERRED CHARGES:

Prepaid insurance, taxes, etc.....
 Supplies.....
 Organization expenses, etc. of one subsidiary company.....
 Unamortized expenses incurred in leasing premises to F. W. Woolworth Co.....
 Unamortized debt expense.....

GOODWILL—at nominal amount.....

(A DELAWARE CORPORATION)

AND SUBSIDIARY COMPANIES

CONSOLIDATED BALANCE SHEET, JANUARY 31, 1939

ASSETS		LIABILITIES AND EQUITY	
Cash	\$ 5,073,694.45	Accounts payable:	
Accounts receivable	1,341,230.00	Trade creditors	\$1,664,800.56
Inventory	8,094,695.26	Trade creditors for merchandise in transit	724,802.21
Prepaid expenses	5,374,668.26		\$ 2,389,602.77
Property, plant and equipment	13,469,363.52	Accrued liabilities:	
Goodwill		Compensation	\$ 283,657.63
		Federal taxes on income	757,200.00
		Other taxes	483,295.66
		Interest	50,504.16
		Miscellaneous expenses	153,611.64
		Dividends on preferred stock of subsidiary company	2,145.83
			1,730,414.92
		Long-term indebtedness due within one year	151,064.30
		Sundry creditors	169,649.39
			\$ 4,440,731.38
		RESERVES FOR POSSIBLE ASSESSMENTS OF TAXES, FOR INSURANCE AND FOR OTHER CONTINGENCIES	533,952.94
		LONG-TERM INDEBTEDNESS OF SUBSIDIARY COMPANIES (See Note 3):	
		Mortgage notes payable, due 1939 to 1964	\$11,176,263.99
		Less amounts due within one year included in current liabilities	151,064.30
			11,025,199.69
		MINORITY INTERESTS IN CAPITAL STOCK AND SURPLUS OF SUBSIDIARY COMPANIES:	
		Preferred stocks owned by other interests—at par value of \$100.00 a share (See Note 4)	\$ 2,000,600.00
		Common stocks owned by other interests	\$ 2,872,029.80
		Surplus applicable thereto	3,121,856.59
			\$ 5,993,886.39
		7,994,486.39	
		CAPITAL STOCK AND SURPLUS:	
		Capital stock:	
		Preferred, 4¼% cumulative, par value \$100.00 per share, maximum redemption price \$107.50 per share—convertible into common stock on the bases described in Note 5:	
		Authorized	Shares 160,000
		Issued	123,450
		Less 2,000 shares retired and 3,800 shares reacquired and held in treasury	5,800
		Outstanding (See Note 6)	117,650
		Capital arising from conversion of preferred shares into common shares	116,250.00
		Common:	
		Authorized—2,000,000 shares without par value, of which 242,900 shares are reserved for conversion of the 4¼% convertible preferred stock (maximum requirement)	
		Issued and outstanding—920,163 shares at \$10.00 per share fixed by the Board of Directors	9,201,630.00
			\$21,082,880.00
		Surplus:	
		Paid-in Surplus	10,202,322.78
		Earned surplus	5,116,056.08
			36,401,258.86
			\$60,395,629.26

(See explanatory notes on following page)

FEDERATED DEPARTMENT STORES, INC.

AND SUBSIDIARY COMPANIES

CONSOLIDATED BALANCE SHEET, JANUARY 31, 1939

NOTES

- (1) During the year The F. and R. Lazarus and Company and The John Shillito Company exercised their options to purchase real estate representing the greater part of their present store sites, previously held under lease from trustees for holders of land trust certificates of equitable ownership in their respective properties. The store site of The F. and R. Lazarus and Company was acquired at a cost of \$3,250,000.00 (exclusive of net premiums paid in connection with exercising such option), of which amount \$1,526,914.92 is included as land and \$1,723,085.08 as buildings. The amount of \$1,540,000.00 expended by The John Shillito Company and the carrying value of leasehold in the amount of \$513,000.00 (option to purchase exercised) are included as land as, in the opinion of the management, the aggregate amount would not exceed the reasonable value of the land acquired.
- (2) The F. and R. Lazarus and Company has contracted for a new service building to cost approximately \$750,000.00. The building is to be constructed on land held under certain perpetual leasehold estates acquired during the year.
- (3) On February 17, 1939, Abraham & Straus, Inc. called for redemption on April 1, 1939, \$1,000,000.00 face amount of its fifteen-year 4% notes at a premium of \$30,000.00.
- (4) The preferred stocks of subsidiary companies owned by other interests are redeemable as follows: Par value of \$1,485,600.00 is redeemable at a maximum price of \$105.00 per share, and par value of \$515,000.00 has no redemption rights.
- (5) The 4¼% convertible preferred stock is convertible at the option of the holder into common stock at any time on or before October 1, 1944—at a conversion price of \$50.00 per share if converted on or before October 1, 1940, \$60.00 per share if converted thereafter and on or before October 1, 1942, and \$70.00 per share if converted thereafter and on or before October 1, 1944. The number of shares of common stock issuable upon the conversion of one share of 4¼% convertible preferred stock is determined by dividing \$100.00 by the conversion price. The conversion price is subject to adjustment from time to time in the event of original issues by the Corporation of shares of its common stock which will make the aggregate number issued since the organization of the Corporation in excess of 1,000,000, at a price to the Corporation lower than the conversion price then in effect.
- (6) On or before June 1st of each year, the Corporation is required to expend for the repurchase of its 4¼% convertible preferred stock the greater of (a) \$140,000.00, or (b) 3% of the balance of the consolidated net earnings after taxes for the preceding fiscal year remaining after deducting from such net earnings the aggregate amount of dividends accrued on the 4¼% convertible preferred stock during such fiscal year. The repurchases during the current year exceed by \$177,304.00 the requirements to June 1, 1939.
- (7) In addition to the write-downs indicated under fixed assets, Abraham & Straus, Inc. wrote off leaseholds of \$265,833.33 as of January 31, 1933, Bloomingdale Bros., Inc. wrote off \$200,603.37 as of the same date representing the remainder of appreciation and of expenditures for fixtures made prior to January 31, 1926, and The F. and R. Lazarus and Company wrote off, also as of the same date, the remainder of appreciation of furniture and fixtures amounting to \$155,797.83.

FEDERATED DEPARTMENT STORES, INC.

AND SUBSIDIARY COMPANIES

CONSOLIDATED PROFIT AND LOSS

YEAR ENDED JANUARY 31, 1939

Net sales (including sales of leased departments).....		\$105,908,983.65
Cost of goods sold, selling, operating and administrative expenses, exclusive of items listed below.....		100,248,177.33
		<u>\$ 5,660,806.32</u>
Deduct:		
Depreciation (see note).....	\$ 1,414,043.91	
Interest on indebtedness and amortization of debt discount and expense.....	289,134.97	
		<u>1,703,178.88</u>
		<u>\$ 3,957,627.44</u>
Other income—net:		
Interest and dividends earned on securities, etc.....	\$ 41,537.32	
Recovery on claim applicable to prior years.....	22,222.31	
Profit on sale of securities.....	1,683.82	
	<u>\$ 65,443.45</u>	
Less:		
Net loss from properties rented to others, after deducting depreciation of \$23,211.78.....	\$26,134.04	
Net premium paid in connection with exercising option to purchase store site of The F. and R. Lazarus and Company	34,472.50	
		<u>60,606.54</u>
		<u>4,836.91</u>
Net profit before provision for federal taxes on income.....		\$ 3,962,464.35
Provision for federal taxes on income.....		757,200.00
Net profit.....		<u>\$ 3,205,264.35</u>
Deduct:		
Dividends on preferred stocks of subsidiary companies owned by other interests	\$ 96,487.00	
Portion of net profit applicable to minority interests in common stocks of subsidiary companies.....	352,554.33	
		<u>449,041.33</u>
Net profit applicable to shares of parent company.....		<u><u>\$ 2,756,223.02</u></u>

NOTE: As of January 31, 1933, certain of the expenditures for fixed assets by certain subsidiary companies were written down (see balance sheet Note 7) and depreciation since that date has been calculated upon the reduced values.

FEDERATED DEPARTMENT STORES, INC.

AND SUBSIDIARY COMPANIES CONSOLIDATED SURPLUS YEAR ENDED JANUARY 31, 1939

PAID-IN SURPLUS:

Balance, February 1, 1938.....	\$10,110,714.22
Add discount on the repurchase of 4¼% convertible preferred stock of the parent company.....	92,151.00
	<u>\$10,202,865.22</u>
Deduct premium paid on repurchase by a subsidiary company of preferred stock held by other interests—parent company's proportion.....	542.44
	<u>Balance, January 31, 1939.....</u>
	\$10,202,322.78

EARNED SURPLUS:

Balance, February 1, 1938.....	\$ 3,949,027.64
Add:	
Net profit, year ended January 31, 1939.....	2,756,223.02
Excess over requirement in reserve for possible assessments of taxes of two subsidiary companies—parent company's proportion.....	66,560.46
	<u>\$ 6,771,811.12</u>
Deduct dividends on:	
4¼% convertible preferred stock—four quarterly dividends of \$1.0625 each to January 31, 1939.....	\$ 505,551.29
Common stock—\$1.25 per share.....	1,150,203.75
	<u>1,655,755.04</u>
	<u>Balance, January 31, 1939.....</u>
	5,116,056.08
TOTAL SURPLUS.....	<u><u>\$15,318,378.86</u></u>

NOTE: The earned surplus is before an appropriation of \$457,304.00, being the cost of 4¼% convertible preferred stock repurchased.

TOUCHE, NIVEN & CO.
CERTIFIED PUBLIC ACCOUNTANTS
EIGHTY MAIDEN LANE
NEW YORK

March 27, 1939.

TO THE BOARD OF DIRECTORS OF FEDERATED DEPARTMENT STORES, INC.:

We have made examinations of the balance sheets as at January 31, 1939 and of the statements of profit and loss and surplus for the year then ended of Abraham & Straus, Inc. and Bloomingdale Bros., Inc., two of the store-operating subsidiary companies of Federated Department Stores, Inc. Messrs. Herbert F. French & Company and Messrs. Ernst & Ernst have made examinations of the consolidated balance sheets as at January 31, 1939 and of the consolidated statements of profit and loss and surplus for the year then ended of Wm. Filene's Sons Company and The F. and R. Lazarus and Company, respectively, two other store-operating subsidiary companies of Federated Department Stores, Inc., the net assets of which represent approximately 55% of the consolidated net assets at January 31, 1939. We have also made examinations of the balance sheets as at January 31, 1939 and of the statements of profit and loss and surplus for the year then ended of Federated Department Stores, Inc. and of Federated Service, Inc., a subsidiary company. From the foregoing financial statements, we have prepared the consolidated balance sheet of Federated Department Stores, Inc. and subsidiary companies as at January 31, 1939 and the consolidated statements of profit and loss and surplus for the year then ended.

In connection with the examinations made by us, we made a review of the accounting methods, examined or tested accounting records of the companies and other supporting evidence in a manner and to the extent which we considered appropriate in view of the system of internal accounting control, and made a general review of the operating and income accounts for the year. The other auditors report likewise with respect to the companies examined by them.

Based upon the examinations made by us, and upon the opinions expressed in the reports of the other accountants with respect to the financial statements of subsidiary companies not examined by us the figures for which have been included upon the responsibility of such accountants, the accompanying consolidated balance sheet and related consolidated statements of profit and loss and surplus, in our opinion, fairly present, in accordance with accepted principles of accounting maintained by each of the companies on bases consistent with those for the preceding year, their consolidated position at January 31, 1939, and the consolidated results of their operations for the year then ended.

TOUCHE, NIVEN & Co.